

the period during which the underpayment existed.

[T.D. 7059, 35 FR 14548, Sept. 17, 1970, as amended by T.D. 7384, 40 FR 49322, Oct. 22, 1975]

**§ 1.6655-7 Special rules for estimating the corporate alternative minimum tax book income adjustment under the annualization exception.**

(a) *In general.* For purposes of section 6655(e) (relating to the “annualization exception”) a corporate taxpayer must take into account the tax imposed by section 55 (relating to the alternative minimum tax) and the tax imposed by section 59A (relating to the environmental tax). Thus, a taxpayer using the annualization exception must estimate alternative minimum taxable income, including the book income adjustment, for the period of the taxable year that is annualized (the “annualization period”).

(b) *Estimating the book income adjustment.* The book income adjustment for the annualization period is determined in accordance with the rules of § 1.56-1, except as otherwise provided in this section.

(c) *Applicable financial statement for the annualization period—(1) In general.* A taxpayer’s applicable financial statement for an annualization period is the financial statement of highest priority described in section 56(f)(3)(A) and § 1.56-1(c) that is prepared for such annualization period by the date the installment payment is due. However, if a taxpayer reasonably expects to have a financial statement of higher priority for such period no later than 30 days after the date the installment payment is due, the taxpayer shall make a reasonable estimate of the adjusted net book income that will result from such statement, and such estimate shall be used as the taxpayer’s adjusted net book income for that annualization period. If the date that is 30 days after the due date of the installment falls on a Saturday, Sunday or legal holiday, the 30-day period is extended to the immediately following day that is not a Saturday, Sunday or legal holiday. For example, an event arising subsequent to the installment due date that causes the taxpayer’s estimate of net book income to be under-

stated will not result in a recomputation of the book income adjustment for the annualization period, if, based on all the facts and circumstances at the time the installment payment was made, it was not reasonably foreseeable that the subsequent event would occur.

(2) *Example.* The provisions of this paragraph may be illustrated by the following example:

*Example.* A is a public corporation that is a calendar year taxpayer. A’s first installment payment of estimated tax is due April 15. A uses the annualization exception under section 6655(e) in order to determine whether it is liable for an addition to tax due to an underpayment of estimated tax. In the case of the first installment, the applicable annualization period is the first three months of the taxable year. On April 15, A has an unaudited financial statement for the first three-month period that is used for credit purposes. By May 15, A will file a quarterly report, Form 10-Q, with the Securities and Exchange Commission. Since the financial statement filed with the SEC has higher priority than the unaudited statement and A can reasonably expect to have such statement no later than 30 days after the installment due date, A must make a reasonable estimate of the adjusted net book income that will result from such statement. This estimate shall be used as A’s adjusted net book income for the annualization period.

(d) *Earnings and profits—(1) In general.* If an applicable financial statement is not available by the date a payment is due for an annualization period or reasonably expected to be available no later than 30 days after the payment is due under the rules of paragraph (c) of this section, current earnings and profits for the applicable annualization period must be used in lieu of net book income. See § 1.56-1(b)(5) for rules relating to computing current earnings and profits for purposes of computing the book income adjustment.

(2) *Election to use earnings and profits—(i) In general.* A taxpayer may elect to use current earnings and profits for the applicable annualization period if the taxpayer has only a statement for such period that is described in section 56(f)(3)(A)(iv) and § 1.56-1(c)(1)(iv) and the taxpayer has elected under the rules of section 56(f)(3)(B)(ii) and § 1.56-1(c)(2) to use current earnings

## § 1.6655(e)-1

## 26 CFR Ch. I (4-1-01 Edition)

and profits to compute the book income adjustment for purposes of filing its annual Federal income tax return. Once the election has been made, current earnings and profits must be used for any annualization period for which the taxpayer has only an applicable financial statement described in section 56(f)(3)(A)(iv) and § 1.56-1(c)(1)(iv).

(ii) *Election during 1987 taxable year.* During its taxable year beginning in 1987, a taxpayer may elect to use current earnings and profits for an applicable annualization period even if the taxpayer has not elected to use current earnings and profits for purposes of computing its annual Federal income tax liability under section 56(f)(3)(B)(ii) and § 1.56-1(c)(2). In addition, a taxpayer electing in 1987 to use current earnings and profits for purposes of its installment payments of estimated tax is not required to use current earnings and profits to compute the book income adjustment when filing its annual Federal income tax return. However, unless an annual election under section 56(f)(3)(B)(ii) is made when filing the taxpayer's 1987 Federal income tax return, the election to use current earnings and profits for purposes of computing its estimated tax liability in taxable years beginning after 1987 is terminated.

(iii) *Manner of making election.* If a taxpayer elects to use current earnings and profits for the applicable annualization period under the rules of this section, the taxpayer must attach a statement to its Federal income tax return for the taxable year in which the election was made. The statement must include the electing taxpayer's name, address and taxpayer identification number, identify the election and indicate that it was made under the provisions of § 1.6655-7, state that the only financial statement of the taxpayer available for the annualization period is described in § 1.56-1(c)(1)(iv).

[T.D. 8307, 55 FR 33689, Aug. 17, 1990]

### § 1.6655(e)-1 Time and manner for making election under the Omnibus Budget Reconciliation Act of 1993.

(a) *Description.* Section 6655(e)(2)(C), as added by section 13225 of the Omnibus Budget Reconciliation Act of 1993 (Pub. L. 103-66, 107 Stat. 486), allows a

corporate taxpayer to make an annual election to use a different annualization period to determine annualized income for purposes of paying any required installment of estimated income tax for a taxable year beginning after December 31, 1993.

(b) *Time and manner for making the election.* An election under section 6655(e)(2)(C) must be made on or before the date required for the payment of the first required installment for the taxable year. For a calendar or fiscal year corporation, Form 8842, Election to Use Different Annualization Periods for Corporate Estimated Tax, must be filed by the 15th day of the 4th month of the taxable year for which the election is to apply. Form 8842 must be filed with the Internal Revenue Service Center where the corporation files its income tax return.

(c) *Revocability of election.* The election described in this section is irrevocable.

(d) *Effective date.* The rules set forth in this section are effective December 12, 1996.

[T.D. 8688, 61 FR 65322, Dec. 12, 1996]

### § 1.6661-1 Addition to tax in the case of a substantial understatement of tax liability.

(a) *In general.* Section 6661 imposes an addition to tax (penalty) for an understatement of tax liability that constitutes a substantial understatement of income tax. This section prescribes the effective date of the penalty. The manner of computing understatements subject to the penalty is set forth in § 1.6661-2. The definition of "substantial authority" is set forth in § 1.6661-3. Rules concerning the adequacy of disclosure are set forth in § 1.6661-4. The treatment of "tax shelters" is provided in § 1.6661-5. The circumstances in which the penalty may or will be waived by the Commissioner are set forth in § 1.6661-6.

(b) *Effective date.* The penalty under section 6661 applies to returns the due date (determined without regard to extensions of the time for filing) of which is after December 31, 1982. The penalty does not apply to amended returns, so-called, if the due date for the return to